

# Report of the auditor-general to the Limpopo legislature on and the council of Lepelle-Nkumpi Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Lepelle-Nkumpi Local Municipality set out on pages ... to ..., which comprises the statement of financial position, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year ended 30 June 2019, as well as the notes to the financial statements, including the summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements are fairly presented, in all material respects, the financial position of Lepelle-Nkumpi Local Municipality as at 30 June 2019, financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No.1 of 2018) (DoRA).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not recognise items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Land amounting to R49 645 000 was not included in financial statements and the underlying records. Consequently, property, plant and equipment as disclosed in note 9 to the financial statements was understated by R49 645 000 and revenue from non exchange transactions was understated by the same amount.

#### Revenue

4. The municipality did not recognise revenue in accordance with GRAP 23, *Revenue from non-exchange transactions*. I identified properties in the underlying records that did not include the name of the registered owners, for which the municipality did not fully assess ownership. The municipality did not charge property rates on the certain properties. I was unable to determine the full extent of the understatement of property rates revenue stated at R26 927 677 disclosed in note 23 to the financial statements as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the year.

#### Receivables from exchange transactions

5. The municipality calculated the provision for bad debts based on a percentage of the total debtor age analysis and did not account for the provision for bad debts as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at

the effective interest rate in terms of GRAP 104, Financial Instruments. Furthermore, the municipality did not disclose the age analysis per category of debtors as required in terms of the above accounting standard. Consequently, I was unable to determine the correctness of impairment of receivables amounting to R80 495 557 as disclosed in note 4 to the financial statements as it was impracticable to do so.

6. The municipality did not have adequate systems in place to maintain records of receivables from exchange transaction. I identified differences amounting to R11 629 742 between receivables on the financial statements and underlying records.

#### **Receivables from non-exchange transactions**

7. The municipality did not have adequate systems in place to maintain records of receivables from non-exchange transactions. I identified differences amounting to R4 156 655 between receivables from exchange transactions disclosed in note 5 to the financial statements and the underlying records. Consequently, receivables from non-exchange transactions are overstated by R4 156 655. Additionally, there was a consequential impact on surplus for the period.

#### **Payables from exchange transactions**

8. The municipality did not have adequate systems in place to maintain records of payables from exchange transactions. I identified differences amounting to R3 882 135 between the financial statements and underlying records of debtors with credits balances.
9. I identified differences amounting to R4 931 379 between the financial statements of and the underlying records. The municipality did not accurately capture the journal amount when correcting an error on water transactions. Consequently, payables from exchange transactions disclosed in the note 13 were overstated. Additionally, there was a consequential impact on surplus for the period.

#### **Aggregation of immaterial uncorrected misstatements**

10. In addition to the individually material uncorrected misstatement on payables from exchange, payables from exchange was materially misstated by R3 758 838 due to the aggregated uncorrected misstatements on Retentions, Provision for leave and Accruals.

- Retentions reflected as R21 430 948 was understated by R2 953 701
- Provision for leave reflected as R40 061 270 was understated by R111 806
- Differences of R474 172 were identified between the accrual listing and the financial statements.

#### **Cash flow statement**

11. The municipality did not prepare the cash flow statement in terms of GRAP 2, *Cash flow statements*. I identified an unexplained difference of R12 891 424 between the cash flow statement and my recalculations. Consequently, the cash flow statement as at the end of the year was misstated by R12 891 424.

## Context for the opinion

12. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
13. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
14. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

15. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an errors in the financial statements of the municipality at, and for the year ended, 30 June 2019.

### Material losses

16. As disclosed in note 30 to the financial statements, material losses to the amount of R34 340 536 (2018: R192 531 266) were incurred as a result of impairment of trade receivables.

## Other matters

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unaudited disclosure notes

18. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly we do not express an opinion thereon.

### Unaudited supplementary schedules

19. The supplementary information as set out on pages xx to xx does not form part of the financial statements and is presented as additional information. we have not audited these schedules and, accordingly, we do not express an opinion thereon.



## **Responsibilities of accounting officer for the financial statements**

20. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
21. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

22. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
23. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

24. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
25. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
26. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:



| Development priorities        | Pages in the annual performance report |
|-------------------------------|----------------------------------------|
| KPA 3: Basic service delivery | x – x                                  |
| KPA 7: Spatial rational       | x – x                                  |

27. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

28. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

### KPA 3: Basic service delivery

#### Number of households to be electrified at Mamatonya ward (15 HH) by end of fourth quarter

29. The achievement for target of *Number of households to be Electrified at Mamatonya ward (15 HH) by end of fourth quarter* reported in the annual performance report was 15. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 0.

### KPA 7: Spatial rational

30. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following development priorities:

- Spatial Rational

### Other matters

31. I draw attention to the matters below.

### Achievement of planned targets

32. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) [x to x] of this report.

### Adjustment of material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and spatial rational development priority. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information. As management subsequently corrected only some of the

misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

34. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
35. The material findings on compliance with specific matters in key legislations are as follows:

### **Annual financial statements, annual performance report and annual report**

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **Expenditure management**

37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R517 643, as disclosed in note 41 to the financial statements, in contravention of section 62(1)(d) of the MFMA.
38. Reasonable steps were not taken to prevent irregular expenditure amounting to R46 429 300 as disclosed in note 42 to the financial statements, as required by section 62(1)(d) of the MFMA.

### **Procurement and contract management**

39. The performance of some contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
40. Some of the contracts were awarded through a competitive bidding processes that were not adjudicated by the bid adjudication committee.
41. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
42. Some of the quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its regulations.



43. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

### Asset management

44. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

### Consequence management

45. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
46. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
47. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### Other information

48. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
49. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
50. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
51. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

### Internal control deficiencies

52. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in [the basis for the qualified opinion, the

findings on the annual performance report and the findings on compliance with legislation included in this report.

53. The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
54. The municipality developed a plan to address internal and external audit findings, but there is a need to strengthen controls to ensure that the root causes of findings are adequately resolved and that findings do not recur. The instability in the key leadership positions had an impact in addressing the prior year audit outcomes. Some of the prior year audit findings are recurring in the current year.
55. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
56. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.
57. The review of the annual financial statements and performance report performed by the audit committee before submission to the external auditors was ineffective. This is evident from the findings identified during the audit.

#### Other reports

58. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
59. The municipality instituted civil claims against the former employees that were responsible for investing money at the Venda Building Society. The matter was reported to South African Police Service which was then referred to the South Africa's Directorate for Priority Crime Investigation and was still in progress at the date of this report.

Auditor-General

Polokwane

12 December 2019



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the Lepelle-Nkumpi Local Municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lepelle-Nkumpi Local Municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the [board of directors, which constitutes the accounting officer/ accounting authority/ [insert other]]'s use of the going concerns basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [name of the auditee] [and its subsidiaries] ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a [type of auditee] to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
  - [obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion]<sup>†</sup>

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.